

**Bord Gáis**  
**Energy Index**  
Understanding energy

August 2018

BGE/EI/UE/0818

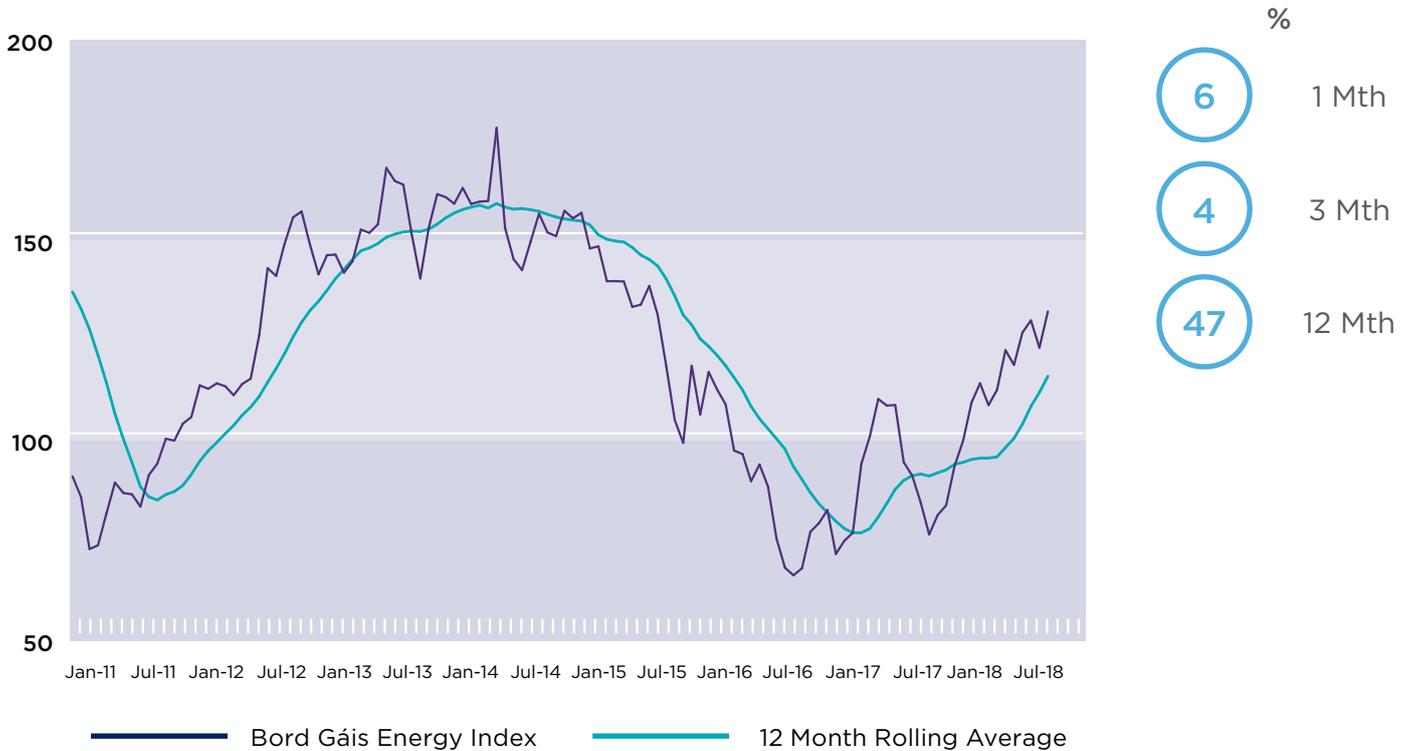


# Bord Gáis Energy Index

August 2018



## Bord Gáis Energy Index (Dec 31st 2009 = 100)



## Summary

**The rally in energy prices gathered pace in August as the Bord Gáis Energy Index rose 6%. The index is now 47% above the comparable period last year.**

All components of the index gained over the month, and gas prices led the way a gain of 8% as supply disruptions, a continued dearth of LNG and strong storage demand all supported prices. The Brent crude benchmark – the largest component of the index – gained 5% over the month, while coal and electricity were 4% and 8% higher respectively.

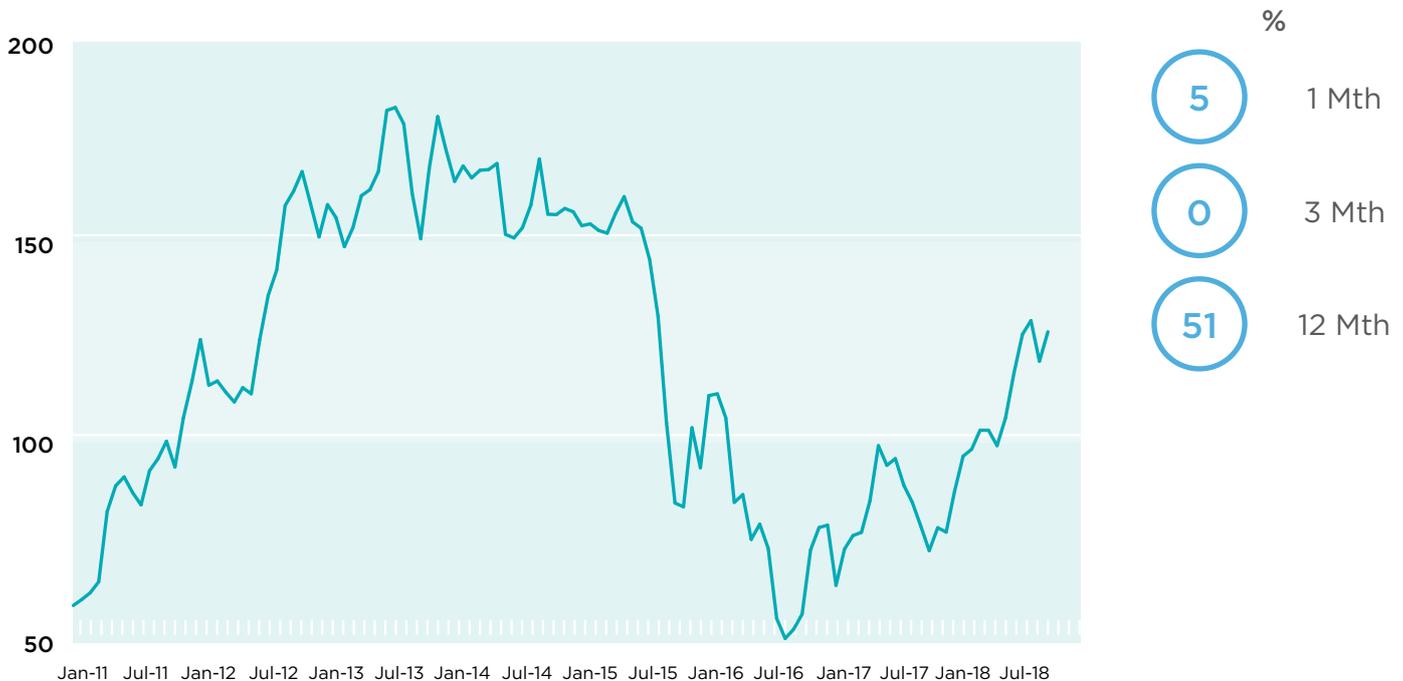
**In August, the Bord Gáis Energy Index stood at 127, an increase of 6% on the month.**

# Bord Gáis Energy Index

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## Oil Index



Index adjusted for currency movements.

Data Source: ICE

## Oil

Oil prices opened the month at \$73/bbl before weakening to \$70/bbl mid-month and rallying to \$77/bbl by month end, up over 5% in Euro terms on the month.

Prices dropped at the start of the month, on reports by the American Petroleum Institute showing an increase in inventories of over 5 million barrels. The sell-off in oil prices gathered momentum following escalating trade tensions between the US and China as the market weighed the potential impact of a trade war between two of the world's major economies - which could have on oil demand growth this year and potentially next year.

The US initially threatened to impose 25 percent duties on a total of \$200 billion of Chinese imports, then announced an extra 25 percent duties on \$16 billion of Chinese goods. China retaliated against the Trump administration's latest tariff escalation by imposing the same 25 percent duties on \$16 billion of US goods. Mr Trump had threatened to levy duties on all \$500 billion of Chinese imports to the US. The hope is that the rhetoric will be walked back in talks between Beijing and Washington over the coming weeks.

Oil prices dropped close to \$70/bbl on 15 August, its lowest level in four months, on an unexpected increase in US crude inventories of 6.8 million barrels versus an expected drop of 2.5m barrels.

The decline in oil prices reversed later in the month as attention shifted to the looming Iran sanctions. The US has approved the sale of crude oil from its Strategic Petroleum Reserves to help mitigate the drop-in supply, which is indicative of the expectation of tight supply conditions.

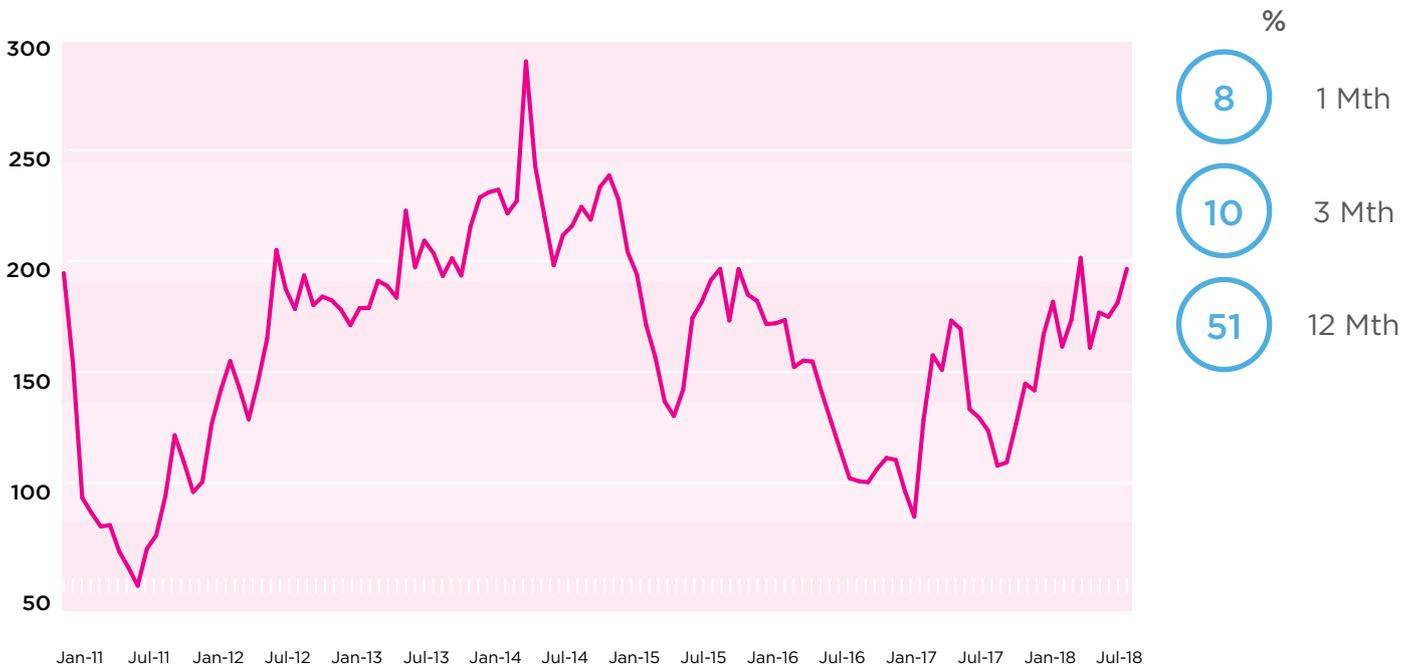
Crude prices were further supported towards the end of the month following a fire at one of the UK's largest oil refineries and an unexpected drop in crude inventories. Oil prices closed the month over \$77/bbl, the gain was driven by a fall in crude inventories and the resumption of US sanctions targeting Iran.

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## Natural Gas Index



Index adjusted for currency movements.

Data Source: Spectron Group

## Natural Gas

The sustained rally in gas prices continued unabated in August. The NBP day-ahead contract, the price for gas delivered tomorrow, averaged 61.93p/th over the month. This is an 8% increase from the previous month and an increase of over 50% in euro terms on the comparable period last year.

Prompt prices increased steadily through the month with gas prices gaining day on day, finishing the month at a high of 69.48p/th, having opened the month at 58.25p/th.

August saw further supply disruptions, following reduced Russian flows in July, as maintenance to key Norwegian fields and plants reduced the flow of Norwegian gas into the UK and Europe. The continuing European storage deficit was another key factor supporting prices. Storage levels in North West Europe entered the summer with stock levels 6bcm below the previous year. Increased injection demand to close this deficit has supported gas prices through the summer and is likely to continue to be supportive as the deficit remains over 3bcm.

LNG cargoes remained elusive in August as resurgent Asian demand and prices attracted LNG cargoes east. Forward prices indicate this LNG drought is likely to endure over the coming months.

Forward prices also put on impressive gains over the month as prompt strength, a continued rally in the broader energy complex, and heightened market supply concerns as we head toward the winter season all supported curve prices.

Carbon had a particularly strong month, increasing over 21% ahead of reforms to the EU's Emissions Trading Scheme designed to tighten supply from 2019. Carbon impacts gas prices through coal switching channel and strong gas prices and low wind have seen demand for Carbon credits increase. The front winter contract gaining 9p to settle almost 11p above the July close at 73.02p/th, a fresh 5-year high. The summer '19 contract also hit multi year highs gaining 6.7p/th to settle at 58.22p/th.

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## Coal Index



Index adjusted for currency movements.

Data Source: ICE

## Coal

Coal prices settled at \$97.90 a tonne in August, an increase of nearly 4% in Euro terms over the month and over 14% higher compared to the same period last year.

Coal prices have been driven by strong Asian demand, with an increase in imports into China, India, Japan, Africa and the Middle East. Currently the US is the only country where there has been growth in supply, with exports falling from both South Africa and Colombia. Coal prices have also been supported by overall increase in commodity prices, with higher oil and gas prices. Coal prices hit a high of \$98.20 mid-month and drifted lower towards the end of the month.

Coal prices have also been supported by rising freight rates, with bulk freight rates rising by 65% since the beginning of April - they are significantly above their five-year average, which has contributed to higher coal prices.

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## Electricity Index



Data Source: SEMO

## Electricity

Wholesale electricity costs, inclusive of forecasted capacity payments, increased by 8% over the month. Wholesale electricity prices typically track the cost of imported gas as it is the most significant cost in the production of electricity. However, this can vary on a month-to-month basis.

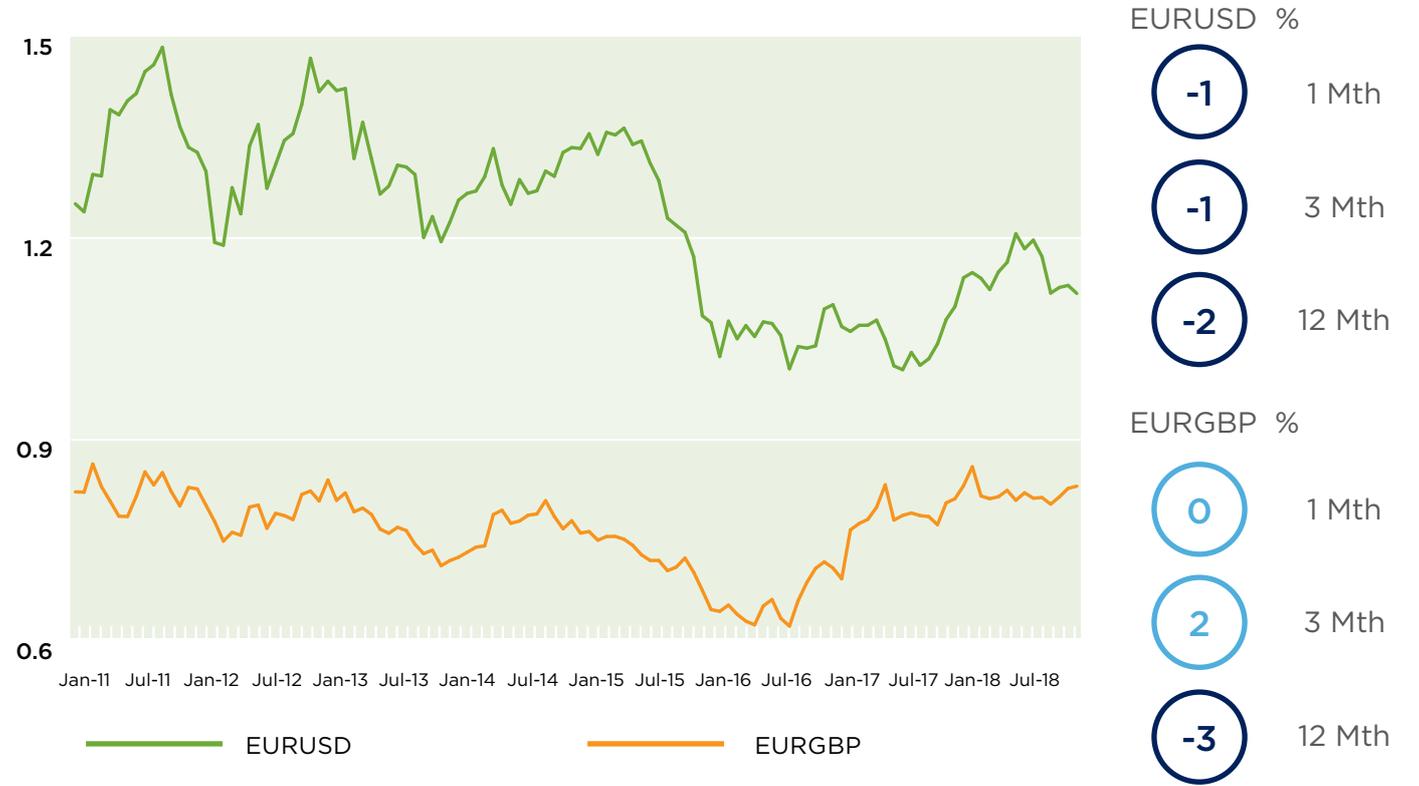
The clean spark decreased to €8.45/MWh in August from €8.58/MWh in July. Wind output was up 64% to 751MW versus 458MW the previous month. The average portion of demand met by wind in August was 20%.

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## FX Rates



## FX Rates

It was a mixed month for the euro which gained value against the pound settling at .89474p, a gain of 0.34%, but lost value versus the dollar, settling at \$1.1595, a loss of .94% on the month.

Data in August pointed to improved economic growth in the second quarter and, crucially, core inflation remained subdued indicating the European Central Bank (ECB) is likely to keep accommodative interest rates in place through to the summer of 2019.

Brexit continues to hang over the UK economy as the deadline for an agreement approaches. Initial soundings from meetings between the new Brexit secretary, Dominic Raab, and his EU counterpart, Michel Barnier, seemed positive. Mr Barnier signalled he was confident that a good outcome could be reached, and that the EU was willing to offer the UK an unprecedented close relationship. However, internal factions within the UK conservative party on what the shape of a final deal should take remain a considerable obstacle to a deal. The Bank of England raised interest rates by 25 basis points in August, as expected.

The US posted robust consumption and labour market numbers during the month, pushing the dollar higher against a basket of currencies. Trade tensions continue to bubble along as the Trump administration ratchets up the rhetoric around existing trade deals. The Federal Reserve held rates steady in August but look set to raise rates at a gradual pace over the coming months.

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